

Message Text

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44-40

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FM AMEMBASSY TEHRAN

TO SECSTATE WASHDC 6814

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USCINCEUR VAIHINGEN GER

AMCONSUL FRANKFURT

C O N F I D E N T I A L TEHRAN 4757

FRANKFURT FOR GAO

E.O. 11652: GDS

TAGS: MASS, IR, US

SUBJECT: EMBASSY COMMENTS ON DRAFT GAO REPORT, QUOTE ISSUES

RELATED TO US MILITARY SALES AND ASSISTANCE TO IRAN.

CODE 46305 UNQUOTE

1. EMBASSY OFFERS FOLLOWING COMMENTS FOR DEPARTMENT'S CONSIDERATION IN ITS REVIEW OF DRAFT GAO REPORT. PRINCIPAL COMMENTS ARE KEYED TO RECOMMENDATIONS ON REPORT PAGES 5 AND 6.

A.WE AGREE THAT IT WOULD BE DESIRABLE IF IRAN WOULD SHIFT ARMS PURCHASES FROM FMS CHANNELS TO DIRECT SALES UTILIZING A PURCHASING MISSION OR PROCUREMENT ADVISORS. WE SHALL CONTINUE TO DO WHAT WE CAN TO ENCOURAGE GOI TO MOVE IN THAT DIRECTION. HOWEVER, AS GAO IS AWARE, THERE ARE PRACTICAL AND POLICY CONSIDERATIONS WHICH SHOULD ALSO BE BORNE IN MIND. FIRST, GOI SIMPLY DOES NOT HAVE SUFFICIENT QUALIFIED PERSONNEL TO RENDER INFORMED EVALUATIONS OF TERMS OF US ARMS PURCHASES. GOI FEELS THAT IT CAN TRUST USG TO DO THIS JOB. SECOND, OPERATING THROUGH FMS GIVES USG SOME LEVERAGE IN DEALING WITH PRIVATE AMERICAN FIRMS AND PRECLUDES GOUGING OF GOI BY UNSCRUPULOUS ENTERPRISES. WITHOUT FMS CHANNEL USG WOULD HAVE MUCH LESS INFLUENCE OVER IRANIAN ARMS ACQUISITIONS.

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B. WE AGREE THAT FMS PRICES SHOULD INCLUDE ALL PERTINENT COSTS AND HAVE URGED THAT STUDY BE MADE TO INSURE THAT IRAN IS NEITHER OVERCHARGED NOR UNDERCHARGED IN ITS FMS TRANSACTIONS.

C. WITH RESPECT TO POSSIBLE SUBSIDY TO IRAN THROUGH EXIM BANK LENDING RATES WE BELIEVE THAT GAO SHOULD NOT LIMIT ITS ATTENTION TO IRANIAN USE OF EXIM FINANCING FOR MILITARY PURCHASES. BASIC QUESTION IN OUR VIEW IS WHETHER EXIM BANK SHOULD LEND TO COUNTRIES WHICH ARE ABLE TO FINANCE PURCHASES THEMSELVES. WE DO NOT THINK IRAN SHOULD BE SINGLED OUT IN THIS REGARD AND SUGGEST THAT THIS SECTION OF REPORT BE REMOVED AND PERHAPS USED IN ANOTHER GAO STUDY OF BROADER QUESTION OF EXIM BANK POLICY TOWARDS CASH-RICH COUNTRIES.

D. WE KNOW OF NO UNDELIVERED GRANT AID. IF THERE IS ANY EQUIPMENT IN THAT CATEGORY WE AGREE WE SHOULD CONSIDER CONVERTING IT TO FMS.

E. REPORT'S DISCUSSION OF PAST DUE LEND LEASE AND SURPLUS PROPERTY DEBTS SHOULD INCLUDE MENTION OF GOI PAYMENT IN MARCH 1973 OF \$754,734.06. REPORT SHOULD ALSO REFLECT THAT WE ANTICIPATE RECEIVING COUNTERCLAIMS FROM GOI IN EXCESS OF OUR CLAIMS AGAINST IRAN. NEGOTIATIONS ARE CURRENTLY IN ACTIVE STAGE. AS THESE OLD DEBTS ARE NOT RELATED TO CURRENT OR, FOR THE MOST PART, PAST MILITARY ASSISTANCE PROGRAMS, WE THINK IT IS HIGHLY INAPPROPRIATE TO INCLUDE DISCUSSION OF THIS ISSUE IN PRESENT REPORT. LEND LEASE DEBT IS LONGSTANDING BILATERAL PROBLEM AND WE FEEL THAT IT IS IMPROPER TO SINGLE IT OUT FOR ATTENTION IN THIS CONTEXT, PARTICULARLY WHEN MERITS OF ISSUE ARE IN PROCESS OF CLARIFICATION.

F. WE HAVE RAISED WITH WASHINGTON (TEHRAN 7454) QUESTION OF MAAG FINANCING AND AWAIT INSTRUCTIONS ON THIS PROBLEM.

G. WE ARE PREPARED TO APPROACH GOI ON QUESTION OF BUYING RESIDUAL RIGHTS TO US MAP EQUIPMENT, BUT BELIEVE THERE WILL BE DIFFICULTIES IN PERSUADING GOI THAT SUCH A MOVE WOULD BE IN IRAN'S INTEREST. WE SEE NO STRONG INCENTIVE FOR GOI TO PURCHASE MAP RIGHTS. WE BELIEVE THAT GAO REPORT SHOULD REFLECT PRACTICAL PROBLEM OF CONVINCING GOI THAT IT SHOULD PAY FOR EQUIPMENT IT CONFIDENTIAL

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NOW USES WITHOUT CHANGE. IRANIANS ARE AWARE THAT RULES GOVERNING TRANSFERS TO THIRD COUNTRIES WOULD REMAIN UNCHANGED.

H. WE QUESTION WHETHER STATEMENT ON PAGE 2 RELATING TO PRESIDENT'S QUOTE COMMITMENT UNQUOTE TO PROVIDE THE NUMBER OF TECHNICAL PERSONNEL NECESSARY TO ASSIST IRANIAN MILITARY ADVANCEMENT ACCURATELY REFLECTS WHAT PRESIDENT SAID TO SHAH IN MAY 1972. WE SUGGEST STATEMENT BE REVISED ALONG LINES THAT PRESIDENT

EXPRESSED WILLINGNESS TO ASSIST IRAN WITH TECHNICAL PERSONNEL.

I. STATEMENT ON PAGE 28 THAT STATE DEPARTMENT OFFICIALS IN IRAN SAID TAFT COMMAND STRUCTURE REMOVED US MILITARY PERSONNEL FROM AMBASSADOR'S COORDINATION IS NOT ACCURATE AND SHOULD BE DELETED OR MODIFIED. WE CONSIDER TAFT PERSONNEL AS FULL MEMBERS OF THIS MISSION; AMBASSADOR LOOKS TO CHIEF ARMISH/MAAG TO SUPERVISE AND COORDINATE THEIR ACTIVITIES.

J. WE SUGGEST STATE OFFICIALS CAREFULLY SCREEN REPORT BEFORE RELEASE TO INSURE PROPER CLASSIFICATION OF ALL PAGES.

2. FOR GAO FRANKFURT: WE APPRECIATE VISIT OF MR. DEMARCO WITH WHOM WE WERE ABLE TO DISCUSS FOREGOING POINTS IN GREATER DETAIL.
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